

ENC 2

CITY OF LANCASTER, CALIFORNIA

SINGLE AUDIT REPORT

JUNE 30, 2008

SAR
4/3/09

CITY OF LANCASTER

JUNE 30, 2008

TABLE OF CONTENTS

	<u>Page Number</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance with Requirements Applicable to Each Major Program, on Internal Control Over Compliance, and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards for the Fiscal Year Ended June 30, 2008	5
Notes to the Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs for the Fiscal Year Ended June 30, 2008	7
Schedule of Prior Year Findings and Questioned Costs for the Fiscal Year Ended June 30, 2007	9



CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, C.P.A.
 - Donald L. Parker, C.P.A.
 - Michael K. Chu, C.P.A.
 - David E. Hale, C.P.A., C.F.P.
- A Professional Corporation*
- Donald G. Slater, C.P.A.
 - Richard K. Kikuchi, C.P.A.
 - Susan F. Matz, C.P.A.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and Members of the City Council
City of Lancaster, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lancaster, California, as of and for the year ended June 30, 2008, which collectively comprise the City of Lancaster, California's basic financial statements and have issued our report thereon dated December 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lancaster, California's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lancaster, California's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lancaster, California's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Lancaster, California's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Lancaster, California's financial statements that is more than inconsequential will not be prevented or detected by the City of Lancaster, California's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 08-1, 08-2 and 08-3 to be significant deficiencies in internal control.



To the Honorable Mayor and Members of the City Council
City of Lancaster, California

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Lancaster, California's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the accompanying schedule of findings and questioned costs is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lancaster, California's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the audit committee, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lane, Loll & Loughard, LLP

December 16, 2008



CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, C.P.A.
 - Donald L. Parker, C.P.A.
 - Michael K. Chu, C.P.A.
 - David E. Hale, C.P.A., C.F.P.
- A Professional Corporation*
- Donald G. Slater, C.P.A.
 - Richard K. Kikuchi, C.P.A.
 - Susan F. Matz, C.P.A.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE, AND
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and the Members of the City Council
City of Lancaster, California

Compliance

We have audited the compliance of the City of Lancaster, California, (the "City") with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our audit procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.



To the Honorable Mayor and Members of the City Council
City of Lancaster, California

A *control deficiency* in a City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiency in the internal control over compliance that we consider material weakness as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the City as of and for the year ended June 30, 2008, and have issued our report thereon dated December 16, 2008. Our audit was performed for the purpose of forming an opinion of the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Lance, Soll & Loughard, LLP

March 13, 2009

CITY OF LANCASTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Direct Programs:			
Community Development Block Grant			
Entitlement Grant *	14.218	B-07-MC-06-0558	\$ 2,349,759
Economic Development Initiative	14.251	B-03-SP-CA-0081	160,947
		B-03-SP-CA-0074	120,710
Passed through the State of California			
Department of Housing and Community Development:			
Home Investment Partnership Program (HOME)	14.239	04-HOME-0734	514,687
Total U.S. Department of Housing and Urban Development			3,146,103
<u>U.S. Department of Commerce</u>			
Direct Program:			
Economic Development Administration			
Investments for Public Works and Economic Development Facilities	11.300	07-01-04971	14,384
Total U.S. Department of Commerce			14,384
<u>U.S. Department of Transportation</u>			
Passed through the State of California			
Department of Transportation:			
Highway Planning and Construction*	20.205	STPLER-5419(016)	567,552
		SR2SL-5419(018)	500,000
Passed through the State of California			
Office of Traffic Safety:			
Sobriety Checkpoint Service for Local Law Enforcement Agencies	20.601	SC071911	18,101
Pedestrian and Bicycle Safety Education Program		PS0702	26,400
Avoid Collisions Through Increased Vigilance, Education and Enforcement		AL0650	25,223
Total U.S. Department of Transportation			1,137,276
<u>U.S. Department of Labor</u>			
Passed through the California Space Authority:			
Workforce Innovation Regional Economic Development	17.261	R661522-LUC-3.11-SOW	24,316
Total U.S. Department of Labor			24,316
<u>U.S. Department of Homeland Security</u>			
Passed through the State of California:			
Disaster Grants - Public Assistance	97.036	037-40130-00	129,663
Total U.S. Department of Homeland Security			129,663
Total Federal Expenditures			\$ 4,451,742

* Major Program

Note a: Refer to Note 1 to the schedule of expenditures of federal awards for a description of significant accounting policies used in preparing this schedule.

Note b: There were no federal awards expended in the form of noncash assistance and insurance in effect during the year.

Note c: No pass-through awards were provided to subrecipients during the year.

CITY OF LANCASTER

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a. Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the City of Lancaster, California, that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by the City from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

b. Basis of Accounting

The expenditures included in the accompanying schedule were reported on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are incurred when the City becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

CITY OF LANCASTER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

- Significant deficiencies identified? ☒ yes ☐ no
- Significant deficiencies identified that are considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ☐ yes ☒ no
- Significant deficiencies identified that are considered to be material weaknesses? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs: Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ yes ☒ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

14.218
20.205

Community Development Block Grant
Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B program

\$300,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

CITY OF LANCASTER

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding Number 08-01

Accounts Payable Accrual

During our test work of accounts payable, we noted one invoice which related to fiscal year 2007 -08 that was paid in fiscal year 2008-09 but not properly recognized as a liability in the prior fiscal year. This occurred because the invoice was received after the City's cut-off date for payables. Since recent auditing standards have made it clear that the independent auditor is not and cannot be part of their client's financial reporting process or its internal control, the City needs to review its procedures to ensure that all items which relate to the prior fiscal year are appropriately recorded. We recommend that in addition to the performance of the City's general cutoff procedures for payable, the City also review subsequent disbursements for potential accrual.

Finding Number 08-02

Cash and Investments

During our test work of cash and investments, we noted certain activity and corrections were required in order to properly state the City's cash and investments. Since recent auditing standards have made it clear that the independent auditor is not and cannot be part of their client's financial reporting process or its internal control, the City needs to review its procedures to ensure its cash and investments are properly reported. We recommend that in addition to the performance of the City's regular cash reconciliations, a complete reconciliation of all of the City's cash and investments, including cash with fiscal agent, be completed.

Finding Number 08-03

Restatements

The City reported certain restatements of Net Assets and Fund Balances for loans, land held for resale, capitalized interest, pass through computations, and miscellaneous other restatements for its financial statements.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

CITY OF LANCASTER

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

SECTION I - FINANCIAL STATEMENT FINDINGS

Finding Number 07-01

During our test work of accounts payable, we noted several invoices relating to the 2006-07 fiscal year and paid in fiscal year 2007-08 that were not properly accrued as a liability in fiscal year 2006-07. Since recent auditing standards have made it clear that the independent auditor is not and cannot be part of its client's financial reporting process or its internal control, the City needs to review its procedures to ensure that all items which relate to the prior fiscal year are appropriately recorded. Toward that end, we recommend that in addition to the performance of the City's general cutoff procedures for payable, the City also review subsequent disbursements for potential accrual.

Status: The City is in the process of correcting this finding. A similar instance was noted as a current year finding.

Finding Number 07-02

In computing its claims and judgment liability at fiscal year end, the City reviews its claims report for loss reserve and expense reserve. However, the number used by the City did not include all claims outstanding at fiscal year end and did not include an estimate for claims incurred but not reported. An audit adjustment has been provided to account for these. Again, recent auditing standards have made it clear that the independent auditor is not and cannot be part of its client's financial reporting process or its internal control. We recommend that the City review its procedure in computing claims and judgment liability at year end, to assure accuracy and completeness of the account.

Status: The City has corrected this finding and no instances were noted in the current year.

Finding Number 07-03

During the current fiscal year, the City received many Federal and State grants and had material grant related expenditures. For the most part, all material grants were properly reconciled. However, we noted one instance where a material grant reimbursement accrual was missed for expenditure incurred in the current fiscal year and another instance where grant funding was received in advance of the expenditure being incurred and recorded as revenue instead of deferred revenue. We recommend that the City reviews its procedures to ensure that all grants are properly reconciled and grant revenues are properly recorded.

Status: The City has corrected this finding and no instances were noted in the current year.

SECTION II - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number 07-04

- Federal Program:
CFDA number: 15.916
Title: Nature Study Pavilion Development
Federal Agency: U.S. Department of Interior

CITY OF LANCASTER

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

SECTION II - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

- Criteria or specific requirement

The Suspension and Debarment requirement of Circular A-133 prohibits Non-Federal entities from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred.

- Condition

The City does not have a debarment policy established.

- Questioned costs

None

- Effect

The absence of policy over Suspension and Debarment requirements leads to the risk of awarding funds to parties who are suspended or debarred from federal projects. If a party is suspended or debarred, any payment to them is unallowable and subject to repayment.

- Recommendation

We recommend that management establish a debarment policy and enforce the policy throughout.

- Management's response

Management concurs with the finding and has since established a debarment policy.

Status: The City has corrected this finding and no instances were noted in the current year.

Finding Number 07-05

- Federal Program:
CFDA number: 15.916
Title: Nature Study Pavilion Development
Federal Agency: U.S. Department of Interior

- Criteria or specific requirement

The Davis-Bacon Act requirement of Circular A-133 requires that laborers and mechanics employed by contractors or subcontractors who work on construction contracts financed by federal funds be paid wages not less than those established by the U.S. Department of Labor for the locality of the project (prevailing wage rates). Contractors and/or subcontractors must submit a certified payroll report to the grantee on a weekly basis.

CITY OF LANCASTER

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

SECTION II - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

- **Condition**

The City did not obtain weekly, certified payrolls from contractors working on the project, as required.

- **Questioned costs**

The amount paid to the contractor under the contract we questioned was \$135,932 out of total federal expenditures of \$145,606 for this program. However, the amounts that were actual underpayment of prevailing wages, if any, were undetermined because the contractor did not submit the certified payrolls.

- **Effect**

Because the City did not obtain the certified payrolls, the City cannot ensure that the contractor and subcontractors awarded this federally funded project have paid employees the prevailing wages.

- **Recommendation**

We recommend that the contracts require contractors and sub-contractors on construction project to submit weekly certified payrolls to the City. Further, we recommend that the City follow up with all contractors on current federal projects to ensure these requirements are met and monitor all future federal grant construction projects for compliance with the Davis-Bacon Act.

- **Management's response**

Management concurs with the finding and will further enforce the practice of checking that contractors under a public works project pay prevailing wages.

Status: The City has corrected this finding and no instances were noted in the current year.

CITY OF LANCASTER, CALIFORNIA

SUMMARY SCHEDULE of PRIOR AUDIT FINDINGS

6/30/1996	Not applicable. No audit findings for fiscal year ending June 30, 1996 audit.
6/30/1997	Not applicable. No audit findings for fiscal year ending June 30, 1997 audit.
6/30/1998	Not applicable. No audit findings for fiscal year ending June 30, 1998 audit.
6/30/1999	Not applicable. No audit findings for fiscal year ending June 30, 1999 audit.
6/30/2000	Not applicable. No audit findings for fiscal year ending June 30, 2000 audit.
6/30/2001	Not applicable. No audit findings for fiscal year ending June 30, 2001 audit.
6/30/2002	Not applicable. No audit findings for fiscal year ending June 30, 2002 audit.
6/30/2003	Not applicalbe. No audit findings for fiscal year ending June 30, 2003 audit.
6/30/2004	Not applicable. No audit findings for fiscal year ending June 30, 2004 audit.
6/30/2005	Not applicable. No audit findings for fiscal year ending June 30, 2005 audit.
6/30/2006	Not applicalbe. No audit findings for fiscal year ending June 30, 2006 audit.
6/30/2007	Finding Number 07-01 During our test work of accounts payable, we noted several invoices relating to the 2006-07 fiscal year and paid in fiscal year 2007-08 that were not properly accrued as a liability in fiscal year 2006-07.
6/30/2007	Finding Number 07-02 In computing its claims and judgment liability at fiscal year end, the City reviews its claims report for loss reserve and expense reserve. However, the number used by the City did not include all claims outstanding at fiscal year end and did not include an estimate for claims incurred but not reported.
6/30/2007	Finding Number 07-03 During the current fiscal year, the City received many Federal and State grants and had material grant related expenditures. For the most part, all material grants were properly reconciled. However, we noted one instance where a material grant reimbursement accrual was missed for expenditure incurred in the current fiscal year and another instance where grant funding was received in advance of the expenditure being incurred and recorded as revenue instead of deferred
6/30/2007	Finding Number 07-04 The City does not have a debarment policy established.
6/30/2007	Finding Number 07-05 The City did not obtain weekly, certified payrolls from contractors working on the project, as required.

CITY OF LANCASTER, CALIFORNIA

FY 2007-08 CORRECTIVE ACTION PLAN

- | | |
|---------------------------------------|---|
| 6/30/2008 Finding Number 08-01 | After the year-end cut-off date for payables, we will review all invoices in excess of \$50,000 to ensure posting to the proper period. |
|
 | |
| 6/30/2008 Finding Number 08-02 | We have created a check list to ensure all cash accounts are reconciled on a regular basis, including cash held with fiscal agent. |
|
 | |
| 6/30/2008 Finding Number 08-03 | These were one-time adjustments that were discovered during a comprehensive review of the accounts. |